# Croda International Plc

## Results for the six months ended 30 June 2023

## Call transcript

**Key:**
Steve Foots – Group Chief Executive
Louisa Burdett – Chief Financial Officer
David Bishop – Director of Investor Relations

**Steve Foots, Group Chief Executive**
Good morning, welcome everyone and many thanks for joining our half year results presentation. I'm here with Louisa as well as David. We'll run through our respective sections of the pack and as usual there will then be plenty of time for your questions at the end. So a straightforward agenda this morning, a quick overview from me before I hand over to Louisa for a detailed run through of our financial performance and outlook.

I will then provide an update on some key aspects of our strategy before the Q&A. Starting with performance, the results for the first half are very much in line with the changes that we announced to our full year guidance on the 9th of June. The significant volume decline that we have seen because of customer destocking inevitably impacted our profits and margins.

Despite the challenging conditions, it is testament to the strength of our business that we have continued to make good progress. Consumer Care delivered a sequential improvement in volumes with sales flat for the half. Sales increased 8% in Life Sciences when stripping out the exceptional impact of Covid-19 lipid sales in the first half of last year. We saw improved free cash flow with lower working capital outflow more than offsetting lower profit and higher capex. And the interim dividend has been maintained at 47p per share.

As you've seen from us before in tough conditions, we have taken some immediate actions to address costs and protect profitability. Should current market conditions persist for longer, we will look to do more in this area. We have also continued to increase investment to strengthen our platform for future growth. We are growing our R&D capability, in Asia especially; expanding our manufacturing footprint to increase capacity, whilst continuing to execute on technology acquisitions, the most recent of which was Solus Biotech, a very exciting opportunity for Croda.

Turning to the sectors. As we indicated in June, the speed and scale of customer destocking that we have seen impact consumer, crop and industrial markets, is quite unlike anything that I've experienced before during my time in the industry. The brutal volume declines are indiscriminate to the segments we serve and are widespread across all parts of our industry. The IS decline is more significant in volume reduction than Crop. But it's in challenging conditions such as these that the depth of and diversity of Croda's businesses really comes to the fore.

In Consumer Care, whilst volumes were down 14% year-on-year, they were up 8% on the second half of last year. We have continued to see good demand for innovation with sector NPP remaining strong at 40% of total sales. Price mix was up 10% reflecting price increases implemented towards the end of last year. Encouragingly, sales were up slightly in Actives with positive mix whilst volume recovery was strongest in Beauty Care, driven by customer demand for sustainability. Our F&F business is doing exactly what we thought it would when we acquired Iberchem, growing sales by 20% reflecting its high exposure to emerging markets and the progress we are seeing with Croda-enabled growth.

In Life Sciences, Pharma sales were up 8% excluding the impact of $60m of lipid sales to our principal vaccine customers last year. We also saw growth in Seed and Crop Protection, although Crop was hit by earlier than expected destocking in the second quarter. Our Nucleic Acid Delivery pipeline continues to develop well with Croda supporting more than half of the nucleic acid drugs in clinical trials that specify a lipid delivery system. This points to a strong medium-term growth trajectory for the business.

Finally, as you'd expect, our Industrial Specialities business saw a significant deterioration in sales, highlighting the cyclical nature of this business and our rationale to exit this space last year.

Just to unpick the destocking point in a little more detail, it is interesting to see from the publicly available data that inventory levels are significantly higher right across our Consumer Care customer base. The chart on the left shows the discrepancy between inventory levels pre-Covid – the dark green line – and where they were at the end of '22.

This correlates with the deterioration that we have seen in volumes in Consumer Care from Q2 last year. As you can see from this chart on the right, the evidence suggests that this is beginning to work its way through with volumes steadily improving, month-on-month from early this year. It is also encouraging to see NPP holding up well at 40%, reflecting the destocking cycle impacting both our NPP and non NPP at the same rate.

As I have said before, our visibility is still restricted to two weeks, so we don't know when conditions are going to return to normal. But they absolutely will at some point, of that we are certain. And then in terms of our priorities, the current environment hasn't changed our strategy – no knee jerk reactions at Croda. Continuing to invest in the business remains a fundamental priority to support our growth trajectory in both the short and medium term.

So top left, we've continued to do bolt-on M&A. Our acquisition of Solus is immediately transformational because it brings both Ceramides to our Consumer Care business and Phospholipids to our Pharma portfolio. It will help to significantly strengthen our capability at the premium end of the market and also in Asia.

Moving down the slide, Asia is a big opportunity for Croda, probably the biggest, which is why we are continuing to invest in the region to drive fast growth. During the half, we have opened new R&D facilities in Shanghai, China and Hyderabad in India. We've also continued to scale biotechnology. The fastest growth will come from sustainable ingredients such as a biotech-derived actives, so we are increasing our capacity accordingly.

And finally, top right, we are also investing in our customer proposition. Our doing the basics brilliantly programme is introducing new ways of interacting with customers, leveraging digital to make engagement faster and easier. We are also finding ways to enhance productivity across our business. These initiatives will make us more efficient. Let me stop there and hand over to Louisa to run you through the financial performance in more detail.

**Louisa Burdett, Chief Financial Officer**
Thank you, Steve, and good morning, everyone. I'd like to start with two orientation points. Firstly, it's only been six weeks since we updated the market, and trading in June, and therefore for the first half, has been as expected.

Secondly, the numbers need slightly more unpicking than usual due to the inclusion of PTIC in the prior period, before its divestment on 30 June last year. The first three numerical columns on this page show our reported numbers, which include PTIC in the 2022 comparator. To estimate our like-for-like performance excluding PTIC, we have provided proforma numbers in the two columns on the right-hand side. As disclosed at the full year results, the divested business contributed sales and operating profit of £191m and £39m respectively in the first half of 2022 which we have adjusted for.

On a reported basis, group sales of £881m were down 22% on the prior period, but after adjusting for PTIC, proforma sales were down 6%, largely due to destocking. Adjusted operating profit of £176m is down 42% on a reported basis, but down 33% proforma. Operating margin was negatively impacted by both lower volumes and the timing of CV19 lipid sales which I will discuss in more detail later.

The effective tax rate on adjusted profit rose slightly versus 2022 to 25.4%, driven by the geographic mix of profit and the increase in the UK tax rate. Adjusted EPS was 92.9p and we have proposed a flat interim dividend of 47p per share, reflecting our confidence in the longer-term outlook and the strength of our balance sheet. Pleasingly free cash flow has improved to £76m, versus £21m in the same period last year.

Finally, turning to the IFRS reconciliation in the bottom chart, intangible amortisation was unchanged at £17m and exceptional items were £29m, primarily an impairment of the goodwill in our Chinese joint venture, SIPO. The joint venture is trading below budget, as a result of the same destocking trends that we are seeing in the broader industrial market, as well as increased local competition.

Therefore, on an IFRS basis, profit before tax was £129m, down from £637m last year, with the 2022 profit on divestment of the PTIC business accounting for the majority of the difference, alongside weaker trading.

Turning to the group sales bridge and moving from left to right on the chart. As covered, the estimate of not owning the PTIC business in the first half of last year results in a 17% adjustment to sales.

Against this pro forma baseline, price/mix added 9% in the period, after a very strong increase for the full year 2022. The price of our raw material basket peaked in Q3 last year and has since seen modest declines. However, the annualisation of price increases in 2022 continues to support price/mix. Pro forma volume declined by 18% largely as a result of extended customer destocking. The weakness of sterling in the first half, particularly against the US dollar, helped to offset some of this impact, increasing sales by 3%.

The next slide looks at the same bridge for adjusted operating profit. The estimate of not owning the PTIC business in the first half of 2022 results in a 13% adjustment. Against this pro forma baseline, the impact of lower volumes with reduced overhead coverage, and the absence of CV19 lipid sales, were the main contributors to the profit fall of 33%.

Turning to sector performance, this slide shows the percentage change in sales and operating profit, with Industrial Specialties and Group shown on a pro forma basis.

Sales in consumer care were flat, operating profit was 21% lower, with an operating profit margin of 20.9%, diluted by lower volumes, although an improvement over the second half of last year.

In Life Sciences, there were no sales of CV19 lipids in the first half of 2023 with shipments due in the fourth quarter. This timing difference was the main contributor to the reported decline in sales of 8%. Excluding the impact of $62m of CV19 lipid sales in the prior period, we were pleased that the rest of the Life Sciences business grew 8%.

Operating profit in Life Sciences declined 39% reflecting both the weak crop volume in Q2 and the phasing of CV19 lipid sales; or declined by 23% excluding Covid lipids.

Sales in Industrial Specialties declined 20% on a pro forma basis, with the sector experiencing more significant destocking trends than in Consumer Care and Crop Protection, as well as increased competition in China. IS margin was just under 7%, with volume declines affecting performance.

Turning to the next slide, Consumer Care sales were flat in the period, a resilient performance in light of market conditions. The sector saw price/mix 10% higher, of which price accounted for approximately 6 percent; with positive mix, particularly in Beauty Actives, accounting for around 4 percent. Volumes were down 14% versus H1 22, reflecting continued destocking, and currency translation added 4%. Although volumes remain down double-digit year on year, we remain encouraged that volumes are up sequentially by 8% versus H2 22.

We estimate that approximately ten percentage points of the 14% volume decline is market-driven, mainly destocking. The remainder is driven by Croda specific supply issues and demarketing that we discussed at February's results.

At the bottom right of the page, we've provided detail on the price/mix and volume dynamics of the four business units within Consumer Care. With the exception of F&F, the consistent theme across each of the business units is positive price/mix and positive currency, offset by lower volumes. Similar volume declines in Beauty Actives, Beauty Care and Home Care underpin our view that we are seeing a broad market adjustment. Beauty Actives has continued to counter volume declines with the highest positive price/mix, driven by strong sales of Sederma actives, particularly to China.

As mentioned, F&F is the exception to these volume declines, with sales growing 20% in the period, driven by its agile, cost competitive model.

Turning to Life Sciences, we've already covered the drop in reported sales of 8% driven by the timing of CV19 lipid sales, with underlying growth of 8% when lipids are taken out. The Pharma business itself also grew by 8% on that basis.

Crop Protection had an exceptional 2022, and entered the year with good momentum, growing volumes with flat prices in the first quarter. As we've said previously, the business began to see rapid destocking in Q2, something we'd expected to materialise more slowly later in the year, with volumes down more than 30% in the second quarter compared with Q1. Overall Crop Protection grew sales 5% with positive price/mix and FX more than offsetting 12% lower volumes.

Seed Enhancement has only a limited exposure to stocking cycles as a significant proportion of its sales are derived from services. It grew sales 18% driven by strong structural growth trends.

This slide shows the drivers behind the operating margin movement in Consumer Care and Life Sciences. The Consumer Care margin declined from 26.6% to 20.9%. Weaker volumes accounted for approximately 9 percentage points of the decline, with reduced coverage of overheads. While volumes in Consumer Care have improved sequentially from the second half of 2022, they remain lower than historical averages and a step-up in volume is required to deliver an improved margin. Encouragingly, price/mix benefitted margin by around 3 percentage points, with Beauty Actives particularly strong, partially offsetting the impact from lower volume.

Life Sciences margin declined from 36.0% to 23.8%. Volume accounted for approximately 4 percentage points, principally driven by the destocking in Crop Protection in the second quarter. Price/mix was the most significant driver, accounting for 8 percentage points of the decline, with no CV19 lipid sales in the first half year.

The penultimate slide in my section focuses on cash flow. Halfway down the table, you can see free cash flow generation of £76m was higher than £21m last year. There were two significant contributors to this improvement.

A reduced working capital outflow of £10m versus £184m in the first half of 2022. During 2022 we experienced a significant increase in stock value principally due to raw material inflation. As raw material prices moderate, this value is unwinding from the balance sheet, but the reduced outflow is also due to active stock management in our regions; and lower interest charges, as we benefitted from holding cash from the PTIC divestment.

These positive movements helped to mitigate the fall in EBITDA at the top of the table and the uptick in capital expenditure to £76m from £62m.

Net debt increased to £349m from the year-end balance of £295m, a leverage ratio of 0.7x EBITDA. As Steve highlighted, we completed the acquisition of Solus Biotech post period end and following payment of the consideration, leverage was 1.1x EBITDA, towards the bottom end of our target range of 1-2x.

To finish up my section, I am going to run through the FY23 outlook with you. Working clockwise round the slide starting at the top left, our guidance remains unchanged for adjusted profit before tax, with a full year forecast in the range £370m - £400m. As a reminder, delivery at bottom end of the range assumes no change in the second half for Consumer Care versus the run-rate in the year to date, covid 19 lipid sales in Q4, an uptick of crop in Q4 and the tax rate expected to remain in the region of 25%.

Moving onto FX. Our guidance on 9th June was given when the FX Sterling to US Dollar rate was 1.23. With recent US Dollar weakness we are carrying greater FX headwinds into H2 23 than we foresaw in June, with a total impact of around £5-6m at rates prevailing at the end of last week, given both translational and transactional exposure.

On cost, as Steve has already highlighted, we are maintaining tight cost control during this difficult time, taking care not to short-term the business. We will continue our doing the basics brilliantly programme which is focused on continuous improvement and good practice to optimise our business processes. And thirdly, should current market conditions persist for longer, we will look to do more in this area.

And finally, capital expenditure is expected to be between £170m and £180m for the full year. This includes the specific investment programme of £175m in Pharma capacity phased over 21-24 to meet the growth in Proteins, Vaccine Adjuvants and, particularly, Nucleic Acid Delivery. But it also reflects the rich seam of organic opportunities for growth available to us, and that Steve will cover in the final section of his presentation; on which note I will now hand you back to Steve.

**Steve Foots, Group Chief Executive**
Great, many thanks Louisa. As you know, a big part of our strategy over the last 3 years has been to align our portfolio with the exciting megatrends that we see, set out here on the left-hand side of the page. Beneath those, there are two massive technology trends.

The first is the escalating demand for sustainable alternatives. Companies both big and small want to find ways of moving to safe, lower carbon and more biodegradable ingredients. Even in the current environment, customers show no signs of reneging on their commitments to sustainability. And the second trend is the move to biologics, actives that come from a variety of living sources. We see big opportunities in gene editing, gene therapy, mRNA drugs more broadly and of course in Crop, we expect a significant shift to biospesticides and RNA technology.

We identified these key trends a long time ago and have been reshaping our portfolio accordingly, both through organic and inorganic investment and by divesting most of our exposure to industrial end markets.

We report as two core business sectors but, in reality, Croda is powered by these 7 dynamic businesses on the left of this slide. They are each run by MD's, with dedicated P&L's as well as R&D and innovation responsibilities to drive performance. They are all focused on niche, higher growth areas. Our job is to live our Purpose and apply our Smart science to improve lives in the form of taking an innovation and sustainable leadership position in all core markets. The opportunities in these emerging niches are much bigger than we have seen in the past.

And as you can see from the charts on the right, there is a real depth and breadth in the business, both in terms of the portfolio and geography which sets us up for really exciting growth going forward. We have a clear growth strategy for each of these businesses, set out on this page.

I want to spend a bit of time talking to you about the progress with are making in Consumer Care, looking more closely at Beauty Actives, Beauty Care and F&F. And also Life Sciences, focusing on our Pharma business. We plan to do a deep dive on Crop at our next Investor Day.

Starting with Beauty Actives, this part of our business has the largest actives portfolio in the industry and is really moving at pace. Two key points to note. Firstly, we are shifting the portfolio to faster growth opportunities in Biotechnology, both plant stem cell and fermentation-based ingredients, filing 10 patents every year for new biotech derived actives.

Secondly, we are expanding the transformational claims we can make in the application of our actives in the brands we supply. Our strategy is to scale our leadership position by continuing to add innovative technologies. Sederma used to be a peptide business supplying anti-wrinkle actives. Now we are also about making skin claims for rapid moisturisation, reducing inflammation, anti-cellulite and wider skin disorders. And for the hair don't forget we have actives to reduce greyness too, something the CEO is very keen on.

And we are stepping up new product launches. Here are six examples of launches this year. Along the top row, exciting developments in peptides and plant stem cells. Our actives business has supplied peptides for the new Boots No7 Future Renew range, the biggest skin care launch in their history. We have also developed peptides for a new Deciem product that repairs scars caused by acne. So Croda is supporting some of the biggest brands globally with their product launches.

The second row are examples of the rapid scale up of biotechnology in the form of fermentation that is opening up more opportunities for us. New launches include anti-ageing and anti-dandruff actives derived from marine biotechnology. And along the bottom, we are also benefitting from investments that we have made in novel delivery systems such as Avanti and Solus, allowing even better performance claims to be created.

Turning to Beauty Care, our strategy is to leverage our portfolio of market-leading sustainable ingredients, positioning ourselves as the go-to-market partner for both small and large customers. The continued fragmentation of beauty care markets is playing to our strengths as we partner with customers enabling them to launch their products quickly.

Similar to the actives portfolio, we are adding further high-performance replacements for fossil-based products, such as biotech-derived surfactants to reinforce a number one position in sustainable surfactants.

In hair care, our focus is on biodegradable ingredients and non-animal alternatives for hair conditioning. We have recently launched a new plant-based, low aqua toxicity conditioner as well as a vegan-friendly conditioning agent. This is very much the future direction of travel.

In sun protection we specialise in mineral sunscreens that deliver superior SPF protection, are 'reef safe' and appear clear on the skin. We are taking further steps to enhance our sustainability credentials by developing a naturals index for all of our products. We expect to launch this later this year.

We are really pleased with the progress that we have made to accelerate growth in our F&F business with sales up 20% in the half, a new record. Their performance is getting stronger under our ownership. The Croda brand has brought added credibility to the businesses we acquired, resulting in increased projects and therefore a stronger pipeline. We are also picking up new business with large multinational brands and regional customers.

As you would expect we continue to invest in both innovation and sustainability. We now have approved R&D and manufacturing investment programmes in China, Indonesia, France and Spain, as well as shifting the portfolio to a lower carbon and more natural footprint. It's all about building knowledge in their fastest growth markets and that is what we are doing.

And a key part of Group strategy is to drive even faster growth in Asia. It represents a big opportunity for both sectors, and not least in Consumer Care where sales grew high single digit during the half. We also saw really strong demand for Sederma's premium actives with their sales growing by over 30% in China during the period.

To support this strong momentum, we are selectively expanding our manufacturing capability across the region. We are starting construction of a new greenfield site in Dahej, India. We are also doing early-stage investment in a combined Beauty Actives and F&F manufacturing facility in Guangzhou to grow domestic sales in China. We have also invested in new Consumer Care laboratory capabilities in Shanghai.

And of course there is also Solus Biotech which has given us another state-of-the-art plant in the region and significantly strengthened our presence across Asia. So there is a lot going on in Consumer Care: new product launches, new claims, moving ever more to sustainable ingredients and building a deeper knowledge brain in our fastest growth market of Asia.

Turning now to Pharma. This is a variation of a slide that you have seen before and it highlights how we are investing across our pharma platform for both near and long-term growth.

The big bubbles illustrate the market opportunity and layered on top, you can see where the Croda technology platform bubbles are allowing us to capture growth in most of those areas. Our legacy health care business is in small molecule injectables where we started our exciting journey. Our leadership in small molecule and protein delivery has been enhanced by the Solus acquisition which adds phospholipids into our portfolio, helping to stimulate additional growth in the near term.

We started to expand into higher growth areas with our acquisition of Biosector, a specialist in the development and supply of vaccine adjuvants giving us access to a market growing double-digit and with a significant need for innovation. Our acquisition of Avanti provides significant growth potential in next generation mRNA vaccines and complex therapeutic drugs, an even higher growth territory.

So whilst we are investing significantly in the medium term, which in itself is looking very exciting, we are also investing to develop a number of near term opportunities too. We have recently expanded into bioprocessing aids, a target adjacency, launching Virodex as an aid for biopharma manufacturing and a superior alternative to a product that is now banned in Europe due to legislative changes in the industry.

Through the Solus Biotech acquisition, we have added phospholipids to the Pharma portfolio. These are naturally derived and can be used as delivery systems for protein and small molecule actives, and for intravenous nutrition. The Solus production site is fully GMP certified, providing us with an option for the manufacture of Avanti lipids in North Asia in the future.

These are two good examples of near-term revenue growth opportunities from the second half of this year and beyond.

Croda is also established as the leading independent supplier of adjuvants and systems which are essential to the development of future preventative and therapeutic vaccines. As you can see on the left, Biosector brought us a large heritage portfolio of aluminium adjuvants as well as a pioneering capability in next generation adjuvants using saponin.

We have been expanding our adjuvants portfolio through exclusive licensing agreements. We agreed to partner with Botanical Solution and Amyris in recent months to provide reliable and sustainable alternatives for adjuvants that are essential to many current and future vaccines. We received multiple enquiries from major vaccine companies on the day the partnerships were announced, reinforcing our confidence in the potential for incremental sales.

And we have also launched a new lipid-based adjuvant, which is a specialised PHAD. And I am being deliberately vague about what it is. This is proprietary in-house technology, developed using world class science and is already being sampled into 70 vaccine projects. We have a really strong platform for future vaccine development.

And finally, our nucleic acid delivery platform is growing rapidly. On the left hand side, Avanti is leading the way, adding 70 new products to their catalogue for drug discovery already this year. Again, this reflects world class science and R&D. Two thirds of Avanti employees are in scientific roles producing research that is frequently referenced in academic citations. This means the medical industry has referenced Avanti lipids in journals and peer review publications 4,800 times in the last year. All of this adds up to research sales growing by over 20% a year.

In terms of pharma clinical pipelines, there will be three phases of growth. First, near term growth will be supported by mRNA vaccines for infectious diseases such as flu and combination covid/flu vaccines. As highlighted in the second box along, pharma industry trials of these vaccines have grown by more than six times in the last year.

We expect mRNA therapeutic cancer vaccines to hit the market next. There has been a sevenfold increase in clinical trials for cancer vaccines as highlighted in the next box.

And then beyond that will come gene editing where the volumes of genetic material and delivery systems required are much higher. Clinical projects have increased one and half-times in the last year.

Croda is supporting more than half of the clinical programmes that specify lipid delivery systems. New mRNA vaccines are expected to come to the market in the next two years, initially vaccines for infectious diseases and then cancer. This will help to drive accelerated growth in our Pharma business from 2025. So putting all of that together. And as we are in Consumer Care, we are investing heavily in our Pharma business to support the significant growth potential that we see.

In June, we opened a new laboratory in Hyderabad to meet growing demand for small molecule and protein delivery. We also 'broke ground' at Lamar, USA as part of our partnership with the US Government, where new capacity is due on stream in 2025.

There is a lot going on in Pharma; new launches, new niches, a clinical pipeline that continues to expand, as well as a continuous investment plan to globalise our drug delivery business.

So in summary, despite the current challenges and headwinds, we have continued to make good strategic progress during the half - and that momentum will continue. We are leveraging our strong balance sheet, investing in both sectors where we see significant opportunities for future growth – both in the short term and beyond.

We are encouraged by the sequential improvement in Consumer Care as customer inventory levels steadily fall. And we continue to make very exciting progress in Life Sciences, in Pharma especially. In both sectors, we are responding to strong customer demand for innovation and sustainable solutions.

Whilst visibility remains limited, Croda is well positioned to respond quickly when the environment normalises, which it will. In the meantime, we keep doing the right things including actions to enhance efficiency and address costs to protect profitability.

Everything that I see in our business today underpins my confidence in Croda's strategy. The future outlook for our business looks very exciting indeed. I will stop there. Louisa and I are very happy to take any of your questions.

**David Bishop, Director of Investor Relations**
We'll now move to the Q&A section of the event. As a reminder, if you're on the webcast, please type your question into the relevant box and I'll read it on your behalf.

For analysts on Zoom, please use the raise hand function, you will then be invited to unmute your audio and video, introduce yourself and your institution and go ahead and ask your question. I understand the first question comes from Chetan Udeshi at JPM.

**Chetan Udeshi, JP Morgan**
Hi, morning everyone.

**Steve Foots, Group Chief Executive**
Hi Chetan, morning.

**Chetan Udeshi, JP Morgan**
Morning. So just the first question was you had the slide showing the progression on volumes in the Consumer Care division for the second half of last year onwards. I'm just curious, how much of that is just your normal seasonality, because I guess Q4 is always the weakest quarter of the year. So in other words are you seeing a recovery where there is more than what you would typically expect from a seasonally point of view? That's the first question.

And the second question was on Life Sciences, I think you mentioned the visibility is still limited to two weeks is that across both Consumer and Life Sciences businesses, or in Life Sciences you have a higher visibility at this point? I think this question is more Crop Care, because clearly you mentioned a rapid decline in volume, which we have also heard from a few of your customers – this is serious, how do you think about that? Thank you.

**Steve Foots, Group Chief Executive**
Thanks Chetan, the volume was tuned up there so we could hear in the end, we couldn't hear the first bit of the question, but I got them both.

Look on volume recovery, I think in an environment that we haven't seen before like this and I haven't seen this for 32 years, the most important thing you look at is the sequential month to month trend to see what's going on, rather than the comparator against last year because it is a very difficult comparator because it's changing all the time.

So, I think that the assumption we can make is that look we're seeing a moderate improvement in Consumer Care, it is moving in the right direction. I think the point on seasonality is we would not necessarily see seasonality from Quarter 1 to Quarter 2, you know the comparators with those two are broadly the same. I mean you can get into you know sun care applications in the summer and things like that and we work through sort of campaigns in those areas. But in the rough that is relatively trivial in the Consumer Care mix.

So, you know the best we can say is we're not seeing any deterioration, we're seeing steady progress ahead of us. If you start from January to exit rates to June, you know we're progressing and the chart in the slide, it has sort of tried to demonstrate that. You can see it's not the hockey stick coming back, but it's a steady improvement. And all the language in the business is you know we would expect that to continue in quite a moderate way.

And I think the other – so the positive thing is it's not – you know we're not seeing any deterioration; it's moving in the right direction. But the other point to make is we don't have the confidence in the data points, accurate data points to suggest that this is going to come back much stronger in the near term. But our visibility is two weeks. So you know we're cautious with it, but it's improving that's for sure, is the message on volume.

In terms of visibility, pretty similar Chetan. The visibility by and large in Life Sciences is the same as in Consumer Care. Particularly when you see that customers are sitting in stock positions, then what you find is they delay last minute orders generally. And that is indiscriminate, that's not just in Consumer, that's in Industrial markets and I would say also in Crop and Pharma markets as well.

So because of that visibility it's very difficult to predict, but you can get swings in the month, because of those more acute swings one way or the other. But by and large that is where we are and that is right across the industry I would say.

**Chetan Udeshi, JP Morgan**
Thank you.

**David Bishop, Director of Investor Relations**
Thank you, Chetan. The next question comes from Sebastian at Berenberg.

**Sebastian Bray, Berenberg**
Hello.

**Steve Foots, Group Chief Executive**
Hi Sebastian.

**Sebastian Bray, Berenberg**

Good morning, thank you for taking my questions. I just have two please, the first is on pricing strategy. If one were to create a graph for pricing similar to what has been done for volumes in Consumer Care over the last few months, what would it look like? And how much agency do sales people have to make price cuts at Croda, presumably to win back some market share? There may be reasons internal why market share has been lost, but it looks like there has been a bit.

And the second question is on polar lipids for vaccine, COVID vaccine sales for 2024, is it a reasonable assumption at this stage to put zero in the model for 2024, or is there not enough visibility at this stage? Thank you.

**Steve Foots, Group Chief Executive**
Thanks Sebastian. Just the first question on pricing strategy, yeah I mean look, we have a very sophisticated pricing strategy, I think in this type of climate the most important thing we look at is – first of all there's the forward costings of our products, so what we're looking at is you know what are raw materials doing first and then making sure that we cost you know the new product recipe costings into customers.

Generally, the way we look at it in the Consumer Care area, you start to think about this area of target business recovery. So in that target business recovery we have very – we look at customer combinations in a very thoughtful way and then we'll buy ourselves – try to get back into some business if we think we need to buy ourselves back into it.

I mean sitting above all of this in Consumer Care is we believe about 75% of the decline in volumes, and we have done a lot of analysis like many companies have you can imagine in this environment, and our analytics would show 75% of this is destocking and demand, but predominately destocking. It's very difficult to decouple those two. So 25% is more self-inflicted Croda, which is around things like forced de-marketing because of supply issues and in particular we mentioned on the last call around the one-off outage we had in the US which sort of brought down volume numbers in the US.

There is a recovery underway to buy back into some of those businesses and some of those lost products and customer combinations, so we're doing that. That doesn't come straight away that comes through the year and we can map that into our model, and we can see the orders coming in.

So what you find in the round though, net-net is you broadly see raw material prices starting to drop further. I mean in Quarter 3 relative to Quarter 2 we expect that to be 5-6%, but it's in the round, they are not collapsing significantly. So demand broadly is still holding up quite well we would say.

So what you find is in the margin, the margins are pretty rock solid because you give some at the bottom and you obviously hang onto it in the very secure bits of business we've got. So in the round you get a pretty stable margin environment for that.

So pricing is that – you know clearly our job now is go after as much business as we can. But you know I used to be a salesman you know Sebastian and one of the big things is in the sales environment in Croda is they haven't had much to sell in three years. Our factories have been full, it's been an oversold industry. So now is a great environment to go out there and develop business. We've got a lot of hungry sales people around the world, and you know a Chief Exec spending quite a bit of time with the sales groups just getting excited about the opportunities that are coming our way.

In terms of the COVID vaccine sales, I think it's too early. I mean our general remarks would be you know for the Pfizer business is very secure for this second half of the year, it's all committed, it's contracted, so there is no change there. So those numbers that we have given you there is no change to that. I think next year it's likely to taper, the Pfizer BioNTech volumes and value are likely to taper down further as we would expect because they are sitting on quite high stock levels and that's government as well as themselves. And we're shipping in material for later in Quarter 4, which probably will allow them to consume that for most of next year. So there will be maybe a little bit next year, but it will be you know significantly less than what we have got now.

Having said that, you know we've talked about the pipeline on one of the slides about the mRNA pipeline particularly and the new five launches that we've talked about as well. So the non-COVID pipeline is growing quite significantly, and we're really excited with that. And again, it's very difficult to put a number on that, but that will partly offset that shortfall in the Pfizer BioNTech business for next year.

But still moving parts, but the most important thing that we're looking at is making sure that we're doing everything that we can to accelerate this pipeline because it's really here for many years rather than just one year with Pfizer. So I'm very pleased with that but let me stop there.

**Sebastian Bray, Berenberg**
That's helpful, thank you for taking my questions.

**David Bishop, Director of Investor Relations**
Thanks Sebastian. I'm just going to take a couple from the webcast, these come from the team at Waverton. The first question is can you please talk about the increased competition in China, it appears to have impacted Industrial Specialties? Is this also seen in other divisions? And was the JV impairment also in Industrial?

And then the second question is, how do you think about your market share in the various niche markets and how do you think about that going forwards?

**Steve Foots, Group Chief Executive**
Right, look let me pass to Louisa, let's do the Sipo impairment, which is Industrial by the way, but I'll let Louisa explain that and I'll come back on Chinese competition and share.

**Louisa Burdett, Chief Financial Officer**
Yeah, thanks Steve, yes, the JV is the 65% JV in China, which sits in our Industrial Specialities business. We've seen EBITDA down significantly in the period and that is both based on demand and price, so similar destocking trends that we're seeing in our other parts of our business in Industrial.

So that EBITDA demand down is against the projections we used to support the goodwill value at the end of last year. So essentially that is the main driver, the changes in the external environment, demand and price, which have led us to reassess that carrying value of goodwill.

**Steve Foots, Group Chief Executive**
Yeah, great and on the competition, I know a number of you have got reports out at the moment on that, which is – you know they are good reports on it. What you normally find in a recessionary environment, particularly when it's a sort of depressed market in China is you do see competition coming out of China into other markets temporarily. So we're seeing that. You can see that in parts of Europe and North America.

Croda is largely unaffected because really these people they don't have infrastructure in – their companies don't have infrastructure, you know R&D, sophisticated selling mechanisms in knowledge of people and also in broader infrastructure like distribution hubs. So what you find is they target the big volume product customer combinations which tends to be at the more upstream end of the market and the more commodity end of the diversified business.

So that tends to be temporary and then once China returns to normal you know that product gets diverted back into China, domestic China. So you see that in a temporary way. By and large for Croda it sort of doesn't really affect us, I mean we're aware of it, but it really doesn't affect Croda as we move the business more and more to knowledge business.

But the Sipo competition is specific to China just on Louisa's point on impairment, so that's just more competition locally for those markets. And we don't have any control of the sales anymore for that business because that is now with Cargill of course and has been with Cargill for many years. So we're really a co-producer for them in the arrangement that we've got. But it's all Industrial that, so that's why we've chosen to do that, the impairment.

In terms of market share, I mean we tend not to talk about market share – you know we reflected on that last six months and 12 months, and you know we've done far more analytical assessment of our business, particularly in Consumer Care and it's quite interesting to see it for what it is. And you can start to really get to some really clever output and better understanding of the trends in terms of business loss against demand, against destocking and the like.

But the most important thing for Croda is to create markets, new markets, you know we're always in current markets and we watch our positions in the current markets. But you know the real growth driver for Croda is continued growth in the underlying current markets, plus moving us into faster growing niches and our job is to try and create as big a niche as we can and have as big a market share in those niches as we can as well.

So around the Board table, around the Exec table it's not about market share it's about winning business, but it's about winning business by and large through you know clever innovation and taking on innovation and sustainability leadership in our markets there too. So hopefully that's answered your question.

**David Bishop, Director of Investor Relations**
If you are listening on the webcast, feel free to type your question in the box and we'll try and ensure that they get asked. The next question comes from Gunther at Bernstein.

**Gunther Zechmann, Bernstein**
Hi, thank you David, hi Steve, hi Louisa, thanks for the presentation. A few questions please, firstly on the Flavours and Fragrance business, you mentioned 20% growth, that's quite impressive. Could you split how much of that is price and volume and I'm sure there will be some FX component within that?

Secondly – Do you want to take them in turn?

**Steve Foots, Group Chief Executive**
Go on Gunther, no carry on, we were just looking at your informality today with your polo top on.

**Gunther Zechmann, Bernstein**
It's summer, thank you – thanks for noticing.

**Steve Foots, Group Chief Executive**
Well Gunther, give us the other question as well and then we'll cover them both.

**Gunther Zechmann, Bernstein**

Secondly, just following up on the previous question on Sipo could you tell us how much book value there is left in the Sipo assets please?

And then lastly, I'm going to push my luck on that one, I think I know what the answer is, but you gave an interesting slide 7 with your customers' inventories, could you share how you rack order those companies on slide 7 please?

**Steve Foots, Group Chief Executive**
Well look on the F&F mix, I'll do the F&F mix, we'll get Louisa to give you a comment on the Sipo book value and then I'll try and give you some sort of reflection on the inventory – a comment on the inventory.

Look, I mean on the F&F slide, it's in the slide actually Gunther, I don't whether you managed to look at the slide, but in the top left of page whatever it is, there's one that shows the mix which I think if I can read it from here…

**Louisa Burdett, Chief Financial Officer**
It's about 50/50, it's about 9% volume, 7% price.

**Steve Foots, Group Chief Executive**
So 9% volume, 7% price, the Flavours business, which is the smaller business is at 13%, so the Fragrance business is you know significantly higher than that. And most of the growth generally is coming from their heartland we call it, so it's the Middle East and it's Asia. You know they have had some really great growth. And this Croda enabled growth – you know our positions in our core markets and the reputation Croda has with a lot of customers both big and small is helping them win more business. So we're really pleased with the team and that growth is – as I said in the presentation it's a record period for them and certainly a record in our ownership as well – under Croda's ownership. So that business goes from strength to strength.

And one of the reasons we bought it is its counter chemical industry cycle, you know it's growing well ahead, and it doesn't suffer from the same sort of destocking mechanisms that we see in our industry because the model is different. So, we're really pleased with that. I think back to Louisa on Sipo.

**Louisa Burdett, Chief Financial Officer**
Just a quick answer to the Sipo question Gunther, it's a full impairment of the goodwill value of Sipo. So there is no goodwill value left after we've taken this impairment. There's obviously sort of asset value, but I think that's probably a level of detail that we don't need to get into, but it's a full impairment of the goodwill value.

**Steve Foots, Group Chief Executive**
And then in terms of inventory I probably won't be answering your question directly Gunther, but I think it's best to say look – two comments, I think. The first comment is a lot of the multinationals – a lot of the issue in destocking for Croda and for many organisations is the big customers, you know the big customers find it difficult to manage stock, so you know their stock swings can be much bigger than small customers. And you can imagine the reasons why, you know it's much bigger infrastructure and more complex businesses. So you know to unwind stock is quite tricky for these people.

I think the second point I would say is there is a range there, I think at one extreme you've got Estee Lauder who are sitting on quite large stock levels, or have been, and the other extreme is L'Oréal who are replenishing virtually fully now. And part of that is their nuances in their business models I think as well, where people – you know some of you are following the consumer companies as well, but you know Estee Lauder are more sensitive to Chinese consumers and travel more than L'Oréal and that's been a bit more effective. So they could see a more drastic change to their near-term horizon than L'Oréal can. And L'Oréal is a bit of a combination of a lot of things, but quite a lot of mass market as well in L'Oréal which is more predictable. So it's no surprise probably when you see that play out that you've got that range in sort of stocking accuracy forecasting and the like.

But what it's done actually more than anything else is it's got us closer to our customers because we are talking to them on a regular basis, weekly now, not just about stock management, but just about everything. So I think you know that has been a sort of real positive that has come out of this period that we're in.

**David Bishop, Director of Investor Relations**
Thanks Gunther.

**Gunther Zechmann, Bernstein**
Thank you.

**David Bishop, Director of Investor Relations**
Two questions from the webcast and then we'll go to Isha Sharman at Stifel, but first the webcast questions. So Andrew at Mirabaud says could you kindly provide some colour with respect to regional growth and destocking in your large geographical regions?

And then George Haggis at Evelyn says please comment on the divergence between growth and particularly volume growth in Beauty Actives and Beauty Care?

**Steve Foots, Group Chief Executive**
Right, I'll have a go at the first one and I'll play Louisa in and both of us will have a go at the second one as well. But on the regional thing. I think I mentioned on the call a few weeks ago, you know destocking is not homogeneous, you know and it's a function of the timing at which countries have come out of the pandemic and so we see it – logically you see that in different periods around the world.

So North America for example was first out of the pandemic, you know spending their way out of it. So consumer spending was significant and our sales into the consumer effectively indirectly through out big customers you know had never been stronger through '21, '22 you know record results for Croda.

So clearly that starts to settle down and unwind and we've been probably now about 12 months in America where we have seen some sort of destocking to different degrees. And I think it's clear in North America that it's a combination of destocking and demand. But all of our evidence says, you know back to my point earlier this is 75% destocking/demand and 25% is effectively sort of Croda self-issues. So we're managing that 25% ourselves, you know trying to regain business and things. But most of this is still that stock correction.

I think Europe is not too dissimilar as well, you've got that combination there as well. So I think the major stocking, destocking issues we've got have been in America and Europe. We're seeing a little bit around the edges in Asia and Latin America, but not significantly.

And so when you look at that, you know we're looking closely and probably the most closely one we're looking at is North America, because North America is where you would expect given the time period that we're now in, you know it's 12 months since we started seeing a slowdown of some description, you know we're expecting that to start to come back first. So you know all eyes are on America for us, like probably you as well. So that's something we'll be monitoring closely. But as I keep saying visibility is about two weeks, which is the shortest visibility I've seen, so you know we'll see it when we see it is that sort of message that we're giving you.

**Louisa Burdett, Chief Financial Officer**
If I could start with the second question around the volume – the differential volume and price patterns in Consumer Care. I think we said when we came out with the full year results that we did expect to see some support from the price increases, the annualisation of the price increases that we put through last year, with some tempering as we came through this first half and then hoping that volume would pick up through the end of the first half and the second half.

Now obviously the volume story hasn't panned out like that and we're rather weaker on that angle than we thought. But we are really pleased – referencing slide 14, to see that price is holding up, particularly in the upper end of our portfolio.

But as I said in the presentation the fact that we've got sort of similar double-digit declines in volume across Beauty Actives and Beauty Care does underpin the fact that we are seeing quite a big market correction here. But that differential between the price mix in Beauty Actives where we have got a lot of our innovative NPP sales is obviously clearly stronger than in Beauty Care where we tend to see more competition at the bottom end of that portfolio.

So I think the trends are pretty much what we thought we would see, and we are really encouraged that the Beauty Actives price mix piece is holding up quite strongly.

**David Bishop, Director of Investor Relations**
Thanks, so the next question is Isha Sharman at Stifel please. Hi Isha.

**Isha Sharman, Stifel Europe Bank AG**
Hi good morning, I have two questions left please. If I adjust for the $62m sales in the first half of last year with a 50% EBIT margin it only explains around 2 to 4 percentage point decline year over year in the EBIT margin for Life Sciences, but you have indicated this to be around 8 percentage points, what am I exactly missing here please?

And the second question is on the guidance of $120m sales and lipid sales for 2024, is it still valid? And could you please talk about the sequential trend that you see from Q1 to Q2 in your Healthcare pipeline in general outside of the COVID-19 sales? Thank you.

**Steve Foots, Group Chief Executive**
Yeah.

**Louisa Burdett, Chief Financial Officer**
Do you want me to take the first one? So, you're correct the COVID-19 mix piece does account for the majority of the 8 percentage points of decline that we saw in the Life Science margin. The other couple of factors are we are seeing a little bit of mix pressure from some adjuvant adjacencies that were also effectively in the COVID market, just at the edges there, and also, we've got a little bit of mix in the underlying Life Science business around some of the higher value adjuvants versus protein delivery. But the majority of it is around the COVID piece to the principal customer.

**Steve Foots, Group Chief Executive**
Great, thanks Louisa. We'll start with the trends, I mean the second question I have answered already somebody already asked that, so I don't know Isha if you missed that. But on the sequential trends it's all around – I think the main trends we're looking at is the pipeline, you know I referred to that in the mRNA slide. So we've got multiple pipelines in Pharma, clearly,

we've got a big Pharma pipeline that we talked to you about late last year at the capital markets day and we are obviously monitoring that on a regular basis.

And I think the general trends are of course more and more projects coming into the clinical 1, clinical 2. But also into just the early stage projects as well. And we don't profess to know everything we're in, but I think I made the point that we've got 4500 or 4800 citations from Avanti. So that means in medical journals around the world Avanti is being talked about in lipids in 4800 reports, which sort of is proxy to say it's a leading indicator for activity in the early stage of development. And then obviously we can monitor publicly clinical 1 – from clinical 1 stage onwards because that is public domain data.

But I mean we're encouraged with it, and I think the summary of my narrative was the near-term opportunities will be influenza, you know flu and combination COVID flu treatments. And that in itself is looking interesting, but again it's not in our hands, we don't know when the big pharma are going to launch these. So it could be quite lumpy when it comes, but it could be quite significant too as well. So that's in the next probably two years, more '25 than '24. But we could see some sales next year certainly as we ramp up advanced sampling and small-scale material to sell.

And beyond that is obviously this whole cancer treatment area, which is looking very interesting in itself. But you know influenza first is probably – will come to the market you know if the science is proven. And then the next step would be one or two cancer treatments, maybe more than that coming on the market after that.

So I think that's the summary of what we think is happening, again we're beholden to our big pharma customers, most of them are big pharma by the way so they are sponsoring them themselves and they have got deep pockets to invest in that. So we don't see any biotech squeeze in the pipeline that we see from others in this area. A lot of these pharmaceutical companies are really putting a tonne of effort in and cash into making sure that these are successful. So that is sort of where we are Isha.

**David Bishop, Director of Investor Relations**
Thank you, Isha. Charles Eden at UBS.

**Charles Eden, UBS**
Hi morning, thanks for taking my questions. Just a couple left from me please. So firstly on Consumer Care, you highlighted that volumes in June were above the first half average, could you comment on how July has been trading and whether this trend gives you quiet confidence that the second half performance in Consumer Care might be somewhat better than what you achieved in the first half? And I ask that in the context obviously Unilever's results this morning where inventories have come down sequentially, which I guess at least at the margins is positive for the destocking trend sequentially.

And then the second question, a bit of a broader question on the balance sheet, 0.7 times net debt to EBITDA at the half or a little over 1 times when accounting for the Solus acquisition, I guess with more cash generation to come in the second half presumably how are you thinking about using this balance sheet? Is the intention still to pursue bolt on M&A, or could we see some shareholder returns here? Thank you.

**Steve Foots, Group Chief Executive**
Thanks, Charles, I'll do the first one and let Louisa comment on the second. I mean difficult to say, you know we can't talk about July yet, I mean it sounds daft, but we haven't finished July yet and we haven't done the analysis and we do quite a lot of analysis now. But it's still difficult to see a trend I think even now to say that we're shooting forwards and you're going to see a massive recovery, I mean we just simply don't have the data points now, so we're still quite

cautious with that. The tone is very positive with our customers, the innovation pipelines are great. But we are still working that through.

And as Gunther mentioned before in his question, or I mentioned to him, you know it's a spectrum of stocking points in the customers and that is why it's quite – it's 25% of our business in Consumer Care is in the big multinationals. So you know we can get a cross sectional view of what's happening there, but it's very different across the piece there as well because there are so many multiple touch points.

So I think we'd just say we'll have a better understanding – I think the big month for the industry is September you know sometimes it can be when people don't normally change stocking positions as they go into the summer. I know that's a sort of old saying, but it still applies now, probably more so. And I think once you come out of the summer then people will start to look and replenish – most customers replenish in September for the rest of the year, and you can get a better view of outlook then from our customers.

So I think that will be quite significant and quite important. So towards the end of September I think we'll start to better understand what that demand – that outlook looks like, we'll get a better understanding of what the trends are Charles to be honest. But you know two weeks visibility it's a tough call for anybody at the moment. You can probably – you'll all rattle your big brains as well as us and we'll put them together and we'd probably be wrong. But you know who knows, we just don't know. But that was that and Louisa on the other point on shareholders and then I can chip in.

**Louisa Burdett, Chief Financial Officer**
Yes, the question was about balance sheet strength, so yes, we're at 0.7 times at the end of June and we nudge up to 1.1 times after we've paid the consideration for the Solus acquisition which closed just after the period end. And clearly even at 1.1 times that's at the lower end of our targeted range of 1 to 2 times.

Look we continue to believe that we have good organic investment opportunities in the business which is our priority for capital allocation. Steve has highlighted a couple of things in his presentation, particularly in China where we think we have good returns for our investment. And I would just like to take the opportunity to just draw your attention to slightly elevated capital capex levels this year at around 170 to 180 as we absorb largely the capacity investment in pharma as well as some of the opportunities that Steve has talked about.

We are really interested in bolt on M&A, we continue to be scouting for those, but obviously that's serendipitous when assets come up and whether they're at the right value. So the ultimate answer to your question Charles is if we find ourselves at the lower end of that range for a period in the medium term then yes, we would have to consider whether there was a better use for that through shareholder returns. But we're not yet at that point, but clearly, we are looking at that landscape.

**Steve Foots, Group Chief Executive**
I think I would just add Charles that you know it gives us great optionality at the moment and you know for Croda it's a balance of making sure we keep things tight in the short term while we get through this headwind in the industry that everybody is facing and then we're strengthening, but importantly we're strengthening the future of Croda through this period as well. And we have always done that. This is the sixth cycle I've lived through and in every other one of them we take the opportunity to strengthen our business. And we have got that firepower to do that.

Now we can do that in different ways, but as Louisa said, capex is the most important because there is a lot of growth in the business for the medium term and that is the cheapest and the best return in many ways for us. And then the swing factor is bolt on M&A versus some sort of share return. And that is something we'll keep monitoring. But there is no black hole to fill in capex, so we're not expecting a big ramp up again of capital.

I think once we have assessed what capital – because we will always reassess through these periods as well, how much capital we need in the business to deploy over the next three or five years, we'll do that through our senior team. And then that might create actually more opportunities to deploy some more funds as well, because you know we're always reassessing what capital we need in the business.

But you know it's at a slightly higher level now because the growth potentially is good and our job is – the most important thing in Croda is there's no knee jerk reaction to what we're seeing, you won't see that. We'll react in our normal way, which is tightly controlling costs, but strengthening the business as well. And it's keeping that balance and making sure we don't damage the business for the future, because you know we're very well positioned for the future when the recovery comes.

**Charles Eden, UBS**
Understood, thank you very much.

**Steve Foots, Group Chief Executive**
Thanks, Charles.

**David Bishop, Director of Investor Relations**
Thanks, Charles. Matthew Yates at Bank of America I think is next. Hi Matthew.

**Steve Foots, Group Chief Executive**
Hi Matthew.

**Matthew Yates, Bank of America**
Thanks David, hi everyone, morning. A couple of questions, the first one around Iberchem, so the numbers that you've put in the presentation both in terms of volumes and sales look pretty good. So I guess if you can just confirm that you're on track to deliver the three to five year synergy targets? And the reason I ask, if I'm not mistaken, you released some accruals on the earn out which would suggest something is either behind budget, or perhaps not making the stretch budget, so I'm just trying to understand the tone which sounds very positive on the asset, versus what's gone through the accounts?

The second question – so with the benefit of hindsight, well done on the timing of the PTIC sale, but it has left you with some small, stranded costs that the rest of the business needs to absorb. Is there a plan or a timeline from getting some of those costs out or are you just stuck with them for the foreseeable? Thank you.

**Steve Foots, Group Chief Executive**
Yeah, all good questions, I mean let me start with the F&F position and then I'll play Louisa into the rest of F&F and the stranded costs. Look F&F is delivering what we expected it to, the run rate growth is significant, and the growth is coming from where we expected it, you know the Middle East, Asia and actually Latin America now we've opened up our Brazil operation there. So you know it's good all round growth.

I think the synergies if we're honest are probably a year behind, they are about one year behind Matthew, partly because of the pandemic and partly because it's just a bit of inertia with our customers you know approving the products.

I think the positive in synergies has been that we are starting to see through Croda's brand positions and just our good strategic positions with a lot of multinationals that we're starting to win some business, particularly where Iberchem is strong locally. So you know multinational business in those areas like North Africa, parts of Southeast Asia and North Asia where their manufacturing is nicely positioned to some of our customers' brands as well. So we're starting to win there as well.

So we have been really pleased with the top line performance, synergies are building, a year behind. The other area that is just slightly behind where we want it to be is the profit. And that is just because of this raw material headwind particularly that they have had, a sort of one in a ten-year event for them – or a one in a fifteen year event where they had – if you remember they had 35% increases in raw materials coming through their business which is very unusual. So they are just unwinding, and it will probably take the rest of this year to unwind. So we should see some margin benefit going into next year as raw materials sort of get back to their probably normal levels I would say.

So it's two things, it's inertia with customers on top line synergies, although we're quite happy with the top line growth and it's bottom line, it's some raw material increases which are unexpected over the last 18 months which are going to unwind. So a combination of that.

**Louisa Burdett, Chief Financial Officer**
Yeah, Matthew I'll pick up a few extra points and then segue into the PTIC piece, I think Steve has done most of the work for me on the first question. But from a technical point of view we obviously have to look at that contingent consideration considering some of the points that Steve has made around synergies and the stretch targets, and we assess that liability at the end of the period and fair value that. And that has led to this single digit million of benefit to the P&L. It's less than a percent on the Consumer Care margin and obviously much smaller than that at the Group level margin.

But actually, it's a good counter on the PTIC piece because even though we've got a slight benefit from that contingent consideration unwind we're still carrying, as you've correctly pointed out about £1m of headwinds – sorry a percentage point of headwind in the Consumer Care portfolio for that Equus stranded cost. So we're pretty neutral at that level and therefore the sequential improvement in the Consumer Care margin from last year to this half still stands.

But on the PTIC stranded costs, look I guess there's two strands, one is if we're successful in buying another business and deploying those PTIC processes where we can actually spread some of those costs across new sales and new volume. Obviously, as I said before we're looking for that, but that just depends on timing. And then the second thing loops back around to you're doing the basics brilliantly and just looking at our cost base in a sensible considered way to see if maybe we can do things slightly differently internally to increase productivity and our cost base, but those would be the two strands of the plan over time to try to mitigate the effect of that.

**Matthew Yates, Bank of America**
Thanks Louisa.

**David Bishop, Director of Investor Relations**
Thanks, Matthew.

**Steve Foots, Group Chief Executive**
Thanks, Matt.

**David Bishop, Director of Investor Relations**
Georgina Fraser at Goldman Sachs.

**Georgina Fraser, Goldman Sachs**
Hi, thank you. Thanks for taking my questions, I've got two left. The first is just going back to capex, is it fair to say we've got a bit of a higher capex guide for 2025 as well as this year and 2024? And if that is the case is this kind of broader scope of capex opportunities, or is it that capex that you were planning is coming at a higher cost?

And then the second question, there have been a lot of moving parts in the portfolio and then we've had some major kind of external cycle swings. So I just wanted to get your sense of where margins should normalise to and if that is something that you're expecting to see in 2024, or will that come later? Thank you.

**Steve Foots, Group Chief Executive**
Yeah, let me start on the margin point Georgina and play Louisa in on margin and capex. I mean look the margin, you can see in the numbers the revenue lines are holding up pretty well in this trading environment, it's the margin that has significant changed and the return – when I look at it from a return on sales point of view. A lot of that – the majority of that is a function of volume, which is unusual for Croda, you know we talk about volume more in these meetings than we have done in 30 years.

I think a lot depends on the visibility, so if we do get volume swings back clearly that is going to significantly help margins. But the product margin that I keep talking about with people is really solid, you know it's rock solid. So our gross margin is the raw material and the pack, and we sort of make the margin versus the selling price, you know we relate that to the selling price, you know that's holding up very well.

So the good thing is if volumes come back that margins should continue to come back pretty strongly. So I think a lot of it is dependent upon how quickly the volume comes back, when it comes back, how quickly it comes back and how significant that rebound is. And then margins will come back. So I think it's way too early to think about where they are going to be for '24, we'll have a much better understanding later in the year.

And we have mentioned – well we have mentioned before that we will give an October trading update as well because of – just the volatility in the market and a number of people have come back to us and said why wouldn't you do that? And I think that's right, so we've reflected on that, but we are still in half yearly reporting from then on in I think. But we will give an update probably in October, just because of this unusual period we're all going through or living through and I think it's only fair that we update the market on the trends that we're seeing. So we'll probably give you a better understanding of that in October.

**Louisa Burdett, Chief Financial Officer**
Yeah, the only thing I would add on margin and probably a little bit of a repeat of what Steve said is that I guess there's a more linear path back to normalised margins with Consumer Care once those volumes come back. And obviously the trigger point depends on when we get to that tipping point and how strong that is.

But as we have already alluded to, we have got a few more moving parts in the Life Science portfolio particularly with the lipid business and you know we have already got some encouraging news in the underlying business, but that going to remain a bit lumpy. So predicting '24 at this point, I would agree with Steve, is probably a bit premature.

Look on the capex I think it has been well trailed that we're investing £175m in pharma capacity across particularly nucleic acids. And that that was going to run from 2021 to 2024 and we are well on with that and have probably spent over half of the money. So we are going to see elevated capital through this year and next year, largely driven by that.

I have already emphasised that we have got some other capital choices that we're making within that committed envelope of capital. But once we are through that process, we should be reverting more to a lower capital envelope. But I think the business case for that investment over the short term has been well trailed around that nucleic acid volume.

**David Bishop, Director of Investor Relations**
Thanks, Georgina.

**Georgina Fraser, Goldman Sachs**
Thank you.

**David Bishop, Director of Investor Relations**
And one final analyst question from Nicola Tang at Exane, thanks for your patience, Nicola.

**Nicola Tang, Exane**
Thank you, thanks for squeezing me in with a question. Just some small stuff left, following up actually on the comments around capex. Louisa I was wondering if you could give us a bit more colour on some of the other moving parts on free cash flow in the second half of the year. I think in the outlook you flag an increasingly negative working capital. So could you talk about where you are on working capital, not just for the receivables but also inventories and I guess maybe interest and tax will step up in the second half of the year?

And then the second one in terms of you talked about the 25% of volume impact in H1 in Consumer being kind of self-inflicted Croda issues with the capacity and the de-marketing. Can you just confirm that all the capacity is now back on line and how quickly do you think as volumes come back you can win back those volumes, or could it be sort of lost volumes? Thanks.

**Steve Foots, Group Chief Executive**
Okay, we'll let Louisa start with the first question and I'll take the second.

**Louisa Burdett, Chief Financial Officer**
So we've covered capex, working capital we've said in the statement that we'll have an outflow at the end of the year, largely the driver for that is receivables because just the maths of a large COVID shipment in the fourth quarter and a presumption of Crop uptick in the fourth quarter, we will obviously be carrying a higher receivables balance at the end of the year.

We continue to do good work on inventory. I've talked again about the fact that we have got the unwind of value from the balance sheet, but we are also improving days. A difficult one to call though whether we're in build mode by the end of the year or continuing to unwind. But I expect the receivables piece to be the main driver. And look there's some internal stuff around creditors, less material but this time last year we have obviously got a big sort of Rem creditor in the books that we won't have this year, so that's another negative call for working cap.

But you know we'll obviously update you a little bit more, but those are the reasons why we're probably in an outflow situation versus inflow, but we'll do the best we can and continue to do that on inventory.

Before I pass over to Steve on the 4 points of the 14% decline in volume that we have attributed to our own internal pieces. Capacity is back and I would just remind you that we said at the end of the '22 results that we expected it might take a couple of years to fully get that back. The charm offensive is starting to work, but I don't think it's going to be an immediate hockey stick back to win that business.

**Steve Foots, Group Chief Executive**
Yeah, and I think you've probably answered the second question as well. I mean just a wider point on you know we don't have any constrained assets at the moment. I don't think we're alone with that in the industry by the way Nicola. So importantly now it's just trying to target recovery of that business that was self-inflicted, you know this forced de-marketing as Louisa mentioned. And that just takes time, you know it will come through gradually and we can monitor that because we can target that. And it's starting to come back, but it will take a few quarters before it fully comes back, and we understand that. So that should build through the second half and into next year as well.

**David Bishop, Director of Investor Relations**
Thanks Nicola. Just over to Steve for a couple of closing remarks.

**Steve Foots, Group Chief Executive**
Thanks David. Well thanks everybody and thanks for the great questions. For Croda there's no knee-jerk reaction, the important thing as you would expect us to do is to keep tight control of costs in the short term as we manage our way through these headwinds and also with our mind on strengthening the business for the medium and long term, so it's a combination of both of those things.

We are in a good position; we'll do the right thing for ourselves and for our investors too and then we're very well placed for the recovery, because we continue to continually invest in this business and it's all about innovation leadership, as you know, and sustainability leadership, for Croda. So, thanks to everybody for joining.

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